

STATE OF CALIFORNIA

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Date: February 3, 2000

PAYROLL LETTER # 00-002
CIVIL SERVICE ONLY

To: All Agencies in the Uniform State Payroll System

From: Ralph Zentner, Chief
Personnel/Payroll Operations Bureau

Re: FRINGE BENEFIT/EMPLOYEE BUSINESS EXPENSE REPORTING COMPLIANCE
PROJECT

This Payroll Letter highlights key results of the 1999 Civil Service Fringe Benefit/Employee Business Expense (FB/EBE) Compliance Project. It also provides an update to the Internal Revenue Service's (IRS) Public Employer Compliance Project (PETC) and Bureau of State Audits (BSA), FB/EBE audit activity.

FB/EBE COMPLIANCE OBJECTIVES

Agencies must satisfy the following objectives:

Report all taxable FB/EBEs provided employees as identified in the Payroll Procedures Manual (PPM) Sections (PPM) I 120-163.

Report all FB/EBEs based on constructive receipt. Taxable/reportable FB/EBEs must be reported by the 10th of the month following the month an employee receives the FB/EBE. For example, if a taxable benefit is received in June, it must be reported to the State Controller's Office by July 10th.

Report all FB/EBEs accurately.

1999 IMPROVEMENTS

Agencies improved compliance with Federal and State tax requirements as illustrated below:

Taxable 1999 FB/EBE wage reporting increased \$333,948. NOTE: this increase occurred even though DPA revised various benefit provisions for rank and file employees thereby reducing annual taxable FB/EBE wages by over \$1 million.

The number of benefits reported by agencies increased: 108 agencies (31%) reported more FB/EBE types (1 to 3 benefits per department) in 1999 versus 1998.

The number of agencies reporting FB/EBEs increased by 12% over 1998 levels. Twenty seven agencies reported FB/EBEs for the first time in 1999; 36 of the 298 entities have yet to report FB/EBEs. In 2000, non-reporting agencies will be contacted regarding their FB/EBE practices.

Since 1996 FB/EBE taxable wage reporting increased from \$27.5 million to \$33.2 million

Document completion accuracy remains a non-issue. No significant quality control problems nor an increase in Form 676 "returns" were noted.

Payroll Input Process (PIP) was expanded by to accommodate 14 new Fringe Benefits: Aircraft Reimbursement Plan, Employee Recognition & Morale Program, Health & Safety Award, Safety Incentive Award, Bicycle Mileage, Commuter Mileage, Electronic Devices, Miscellaneous Incentive Program, Long Term Travel, Tips, Gratuities, Remote Headquarter Mileage, Call Back Mileage and Educational Assistance. Approximately 75% of all taxable FB/EBE wage amounts (\$25.2 million) can and should now be paid via PIP.

PROBLEM AREAS

Based on actual reporting demographics of each agency, major compliance problems persist:

Agencies are not reporting all taxable FB/EBEs provided their employees.

Agencies are not routinely reporting taxable FB/EBEs timely; approximately 30% of all agencies "surge" report. Surge reporting is lumping multiple months' benefits into a single reporting period and/or failing to report benefits received during the year until calendar year end. Surge reported FB/EBEs include: Personal Use of a State Vehicle, Relocation Expenses, Meals for less than 24-hr travel/no overnight stay and various mileage types (Call Back, Remote Headquarters, etc.).

Agencies are not maintaining FB/EBE reporting as staff turnover occurs. Preventable compliance problems (failure to report, surge reporting, etc) are created when replacement staff are unaware of FB/EBE program requirements outlined in the PPM Section I 120-175.

PETC PROJECT

As announced via Payroll Letter #97-025, the IRS is conducting the PETC Project. This project was extended through at least the year 2002. Nationally, employer assessments (compliance reviews) are underway and tax audits have commenced across the country including California. Per the IRS, over \$1 billion in new employment taxes has been collected. The absence of comprehensive, timely and accurate FB/EBE reporting remains a primary PETC Project issue and revenue source.

BSA

The State has initiated FB/EBE audits via the Bureau of State Audits (BSA). BSA is currently conducting a limited number of agency audits. Additional FB/EBE agency audits and/or annual FB/EBE financial reviews are under consideration for this year and thereafter.

ANNUAL COMPLIANCE ACTIVITIES

Plans for the State Controller's Office 2000 FB/EBE Compliance Project are underway. A Payroll Letter outlining the start of the annual compliance project will be released this Spring. Meanwhile, agencies should review FB/EBE business practices and ensure that all FB/EBE compliance objectives are satisfied.

CONTACTS

If you require additional information, use the following contact for assistance:

FB/EBE Reporting Requirements

OR

FB/EBE Consultation

Tax Support Section

(916) 322-8105

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RZ:TSS/CK:lof